

**RUSSELL COMMUNITY SCHOOL DISTRICT**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**June 30, 2004**

**Peak & Gerdes, LLP  
Certified Public Accountants  
103 Benton Avenue East  
Albia, Iowa 52531**

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Russell Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
<u>Board of Education</u> (Before September, 2003 Election)		
Ken Burger	President	2004
Duane Bedford	Vice-President	2003
Mike Holmes	Board Member	2005
Anita Duckworth	Board Member	2005
Mark McCurdy	Board Member	2004
<u>Board of Education</u> (After September, 2003 Election)		
Ken Burger	President	2004
Duane Bedford	Vice-President	2006
Mike Holmes	Board Member	2005
Anita Duckworth	Board Member	2005
Mark McCurdy	Board Member	2004
<u>School Officials</u>		
Doug Miller	Superintendent	2004
Kathy Mills	District Secretary and Treasurer	2004
Paul Goldsmith	Attorney	2004
Sue Seitz	Attorney	2004

**Russell Community School District**

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
103 BENTON AVENUE EAST  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Russell Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Russell Community School District, Russell, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Russell Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principals.

As described in Note 13 to the financial statements, during the year ended June 30, 2004, Russell Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 13, 2004 on our consideration of Russell Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 40 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Russell Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP  
Certified Public Accountants

August 13, 2004

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Russell Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$1,712,104 in fiscal 2003 to \$1,482,112 in fiscal 2004, while General Fund expenditures decreased from \$1,679,885 in fiscal 2003 to \$1,600,293 in fiscal 2004. The District's General Fund balance decreased from \$2,966 in fiscal 2003 to a deficit of \$115,215 in fiscal 2004.
- The decrease in General Fund revenues was attributable to a large error in certified enrollment in a prior year which was corrected in fiscal 2004, along with across the board state aid cuts, and the discontinuance of school improvement technology and Phase III funds. The decrease in expenditures was due primarily to a reduction in staff which would decrease salary and benefit expense. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's decrease in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance, and by deficit spending.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$8,868 in fiscal 2003 to \$2,537 in fiscal 2004.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Russell Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Russell Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Sample GASB 34 Community School District Annual Financial Report**

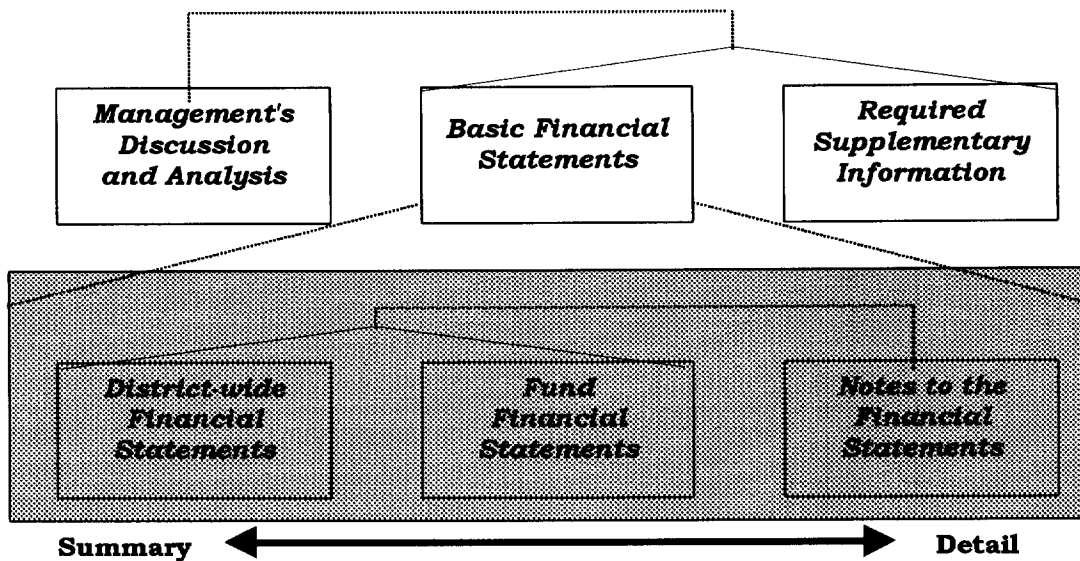




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long- term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long- term	
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or

decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004.

<b>Figure A-3</b> <b>Condensed Statement of Net Assets</b> <b>(Expressed in Thousands)</b>			
	Governmental	Business type	Total
	Activities	Activities	District
	June 30, 2004	June 30, 2004	June 30, 2004
Current and other assets	\$ 1,000	30	1,030
Capital assets	256	5	261
Total assets	1,256	35	1,291
Long-term liabilities	48	-	48
Other liabilities	1,027	2	1,029
Total liabilities	1,075	2	1,077
Net assets:			
Invested in capital assets,			
net of related debt	203	5	208
Restricted	47	-	47
Unrestricted	(69)	28	(41)
Total net assets	\$ 181	33	214

The District's combined net assets decreased by nearly 43%, or approximately \$160,000, under the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$30,000, or 39% under the prior year. The decrease was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$72,000. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

<b>Figure A-4</b> <b>Changes in Net Assets</b> <b>(Expressed in Thousands)</b>			
	Governmental Activities	Business type Activities	Total District
	June 30, 2004	June 30, 2004	June 30, 2004
Revenues:			
Program revenues:			
Charges for service	\$ 117	23	140
Operating grants, contributions and restricted interest	236	41	277
General revenues:			-
Property tax	586	-	586
Unrestricted state grants	649	-	649
Unrestricted investment earnings	3	-	3
Other	5	-	5
Total revenues	<u>1,596</u>	<u>64</u>	<u>1,660</u>
Program expenses:			
Governmental activities:			
Instruction	1,143	-	1,143
Support services	540	-	540
Non-instructional programs	3	66	69
Other expenses	68	-	68
Total expenses	<u>1,754</u>	<u>66</u>	<u>1,820</u>
Change in net assets	<u>\$ (158)</u>	<u>(2)</u>	<u>(160)</u>

Property tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

#### **Governmental Activities**

Revenues for governmental activities were \$1,595,635 and expenses were \$1,753,552. In a difficult budget year, the District was unable to balance the budget.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
**(Expressed in Thousands)**

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,143	848
Support services	540	540
Non-instructional programs	3	3
Other expenses	68	10
Total	<u>\$ 1,754</u>	<u>1,401</u>

- The cost financed by users of the District's programs was \$116,822.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$236,148.
- The net cost of governmental activities was financed with \$586,532 in property and other taxes and \$648,730 in unrestricted state grants.

#### **Business Type Activities**

Revenues for business type activities were \$64,612 and expenses were \$66,705. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

As previously noted, Russell Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of (\$67,765), well below last year's ending fund balances of \$79,595. The primary reason for the decrease in combined fund balances in fiscal 2004 is due to a decrease in state aid because of an error in certified enrollment in a prior year.

#### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. Decreasing growth during the year in tax and grants and the correction of an error on certified enrollment in a prior year resulted in a decrease in revenues. However, the decrease in revenues was more than offset by the District's General Fund expenditures requiring the District to use carryover fund balance and incur deficit spending to meet its financial obligations during the year.
- The General Fund balance decreased from \$2,966 to (\$115,215), due in part to the negotiated salary and benefits settlement, the reduction in state aid and existing expenditure commitments of the District.

- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$48,824 in fiscal 2003 to \$25,954 in fiscal 2004. While revenues remained approximately the same, the District substantially increased spending from the PPEL Fund.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$34,976 at June 30, 2003 to \$32,883 at June 30, 2004, representing a decrease of approximately 6%.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Russell Community School District did not amend its annual budget.

The District's receipts were \$128,032 less than budgeted receipts, a variance of 7%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were more than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and support services functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2004, the District had invested \$256,000, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 9.45% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$27,293.

The original cost of the District's capital assets was \$683,000. Governmental funds account for \$648,000, with the remainder of \$35,000 accounted for in the Proprietary, School Nutrition Fund.

**Figure A-6**  
**Capital Assets, net of Depreciation**  
**(Expressed in Thousands)**

	Governmental Activities June 30, 2004	Business type Activities June 30, 2004	Total District June 30, 2004
Land	\$ 38	-	38
Buildings	83	-	83
Improvements other than buildings	60	-	60
Furniture and equipment	70	5	75
Totals	<u>251</u>	<u>5</u>	<u>256</u>

### Long-Term Debt

At June 30, 2004, the District had \$47,752 in capital loan notes and capitalized lease obligations outstanding. This represents a decrease of approximately 25% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District has total outstanding capital loan notes at June 30, 2004 of \$12,192. The District also had total outstanding capitalized lease obligations payable from the General Fund of \$35,560 at June 30, 2004.

**Figure A-7**  
**Outstanding Long-term obligations**  
**(Expressed in Thousands)**

	Total District June 30, 2004
Capital loan notes	\$ 12
Capitalized lease obligations	36
Totals	<u>\$ 48</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Due to a decrease in assessed valuation, total property tax collections by the District will decrease by approximately \$10,000 in fiscal 2005 compared to fiscal 2004.
- The District has experienced declining enrollment for the past several years, it looks like that this trend will continue.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathy Mills, District Secretary/Treasurer, Russell Community School District, 410 East Smith, Russell, Iowa, 50238.



## Basic Financial Statements

Russell Community School District

Exhibit A

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	\$ 296,131	-	296,131
Other	78,963	27,334	106,297
Receivables:			
Property tax:			
Delinquent	10,385	-	10,385
Succeeding year	522,394	-	522,394
Accounts	1,783	-	1,783
Accrued interest:			
ISCAP	625	-	625
Due from other funds	122	-	122
Due from other governments	94,928	-	94,928
Inventories	-	2,628	2,628
Capital assets, net of accumulated depreciation	250,902	5,098	256,000
<b>Total assets</b>	<b>1,256,233</b>	<b>35,060</b>	<b>1,291,293</b>
<b>Liabilities</b>			
Accounts payable	6,202	2,055	8,257
Excess of warrants issued over bank balance	6,496	-	6,496
Salaries and benefits payable	110,971	-	110,971
Due to other governments	21,614	-	21,614
Due to other funds	-	122	122
Accrued interest payable	858	-	858
Other liabilities	3,525	-	3,525
Deferred revenue - succeeding year property tax	522,394	-	522,394
ISCAP warrants payable	354,000	-	354,000
ISCAP accrued interest payable	1,271	-	1,271
Long-term liabilities:			
Portion due within one year:			
Capital loan notes	12,192	-	12,192
Capitalized lease obligations	35,560	-	35,560
<b>Total liabilities</b>	<b>1,075,083</b>	<b>2,177</b>	<b>1,077,260</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	203,617	5,098	208,715
Restricted for:			
Management levy	(7,707)	-	(7,707)
Physical plant and equipment levy	25,954	-	25,954
Other special revenue purposes	28,736	-	28,736
Unrestricted	(69,450)	27,785	(41,665)
<b>Total net assets</b>	<b>\$ 181,150</b>	<b>32,883</b>	<b>214,033</b>

See notes to financial statements.

Russell Community School District

Statement of Activities

Year ended June 30, 2004

Functions / Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	\$ 772,138	48,702	88,786	-
Special instruction	208,467	11,053	89,243	-
Other instruction	162,770	57,037	-	-
	<u>1,143,375</u>	<u>116,792</u>	<u>178,029</u>	<u>-</u>
Support services:				
Student services	9,715	-	-	-
Instructional staff services	33,751	-	-	-
Administration services	279,045	-	-	-
Operation and maintenance of plant services	161,127	30	-	-
Transpiration services	56,005	-	-	-
	<u>539,643</u>	<u>30</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>2,771</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Long-term debt interest	2,680	-	-	-
AEA flowthrough	58,119	-	58,119	-
Depreciation (unallocated)*	6,964	-	-	-
	<u>67,763</u>	<u>-</u>	<u>58,119</u>	<u>-</u>
Total governmental activities	<u>1,753,552</u>	<u>116,822</u>	<u>236,148</u>	<u>-</u>
<b>Business type activities:</b>				
Non-instructional programs:				
Food service operations	<u>66,705</u>	<u>23,172</u>	<u>41,419</u>	<u>-</u>
Total	<u>\$ 1,820,257</u>	<u>139,994</u>	<u>277,567</u>	<u>-</u>
<b>General Revenues:</b>				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				

\* This amount excludes the depreciation that is included in the direct expenses of the various programs

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(634,650)	-	(634,650)
(108,171)	-	(108,171)
(105,733)	-	(105,733)
(848,554)	-	(848,554)
(9,715)	-	(9,715)
(33,751)	-	(33,751)
(279,045)	-	(279,045)
(161,097)	-	(161,097)
(56,005)	-	(56,005)
(539,613)	-	(539,613)
(2,771)	-	(2,771)
(2,680)	-	(2,680)
-	-	-
(6,964)	-	(6,964)
(9,644)	-	(9,644)
(1,400,582)	-	(1,400,582)
-	(2,114)	(2,114)
(1,400,582)	(2,114)	(1,402,696)
\$ 553,432	-	553,432
-	-	-
32,633	-	32,633
467	-	467
648,730	-	648,730
2,603	21	2,624
4,800	-	4,800
1,242,665	21	1,242,686
(157,917)	(2,093)	(160,010)
339,067	34,976	374,043
\$ 181,150	32,883	214,033

## Russell Community School District

Exhibit C

Balance Sheet  
Governmental Funds

June 30, 2004

	General	Nonmajor Governmental Funds	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	\$ 296,131	-	296,131
Other	27,067	51,896	78,963
Receivables:			
Property tax:			
Delinquent	9,560	825	10,385
Succeeding year	462,778	59,616	522,394
Accounts	-	1,783	1,783
Accrued interest:			
ISCAP	625	-	625
Due from other funds	3,327	2,560	5,887
Due from other governments	83,185	11,743	94,928
<b>Total assets</b>	<b>\$ 882,673</b>	<b>128,423</b>	<b>1,011,096</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 6,202	-	6,202
Excess of warrants issued over bank balance	-	6,496	6,496
Salaries and benefits payable	110,971	-	110,971
Due to other governments	21,614	-	21,614
Due to other funds	2,560	3,205	5,765
Other liabilities	3,525	-	3,525
ISCAP warrants payable	354,000	-	354,000
ISCAP accrued interest payable	1,271	-	1,271
Deferred revenue:			
Succeeding year property tax	462,778	59,616	522,394
Other	34,967	11,656	46,623
Total liabilities	997,888	80,973	1,078,861
Fund balances:			
Unreserved	(115,215)	47,450	(67,765)
Total fund balances	(115,215)	47,450	(67,765)
<b>Total liabilities and fund balances</b>	<b>\$ 882,673</b>	<b>128,423</b>	<b>1,011,096</b>

See notes to financial statements.

Russell Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2004

<b>Total fund balances of governmental funds (page 21)</b>	<b>\$ (67,765)</b>
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***Amounts reported for governmental activities in the  
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	250,902
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	46,623
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(858)
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Long-term liabilities, including capital loan notes and capitalized lease obligations, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(47,752)</u>
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<b>Net assets of governmental activities (page 18)</b>	<b><u>\$ 181,150</u></b>
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See notes to financial statements.

Russell Community School District

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2004

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 531,358	54,748	586,106
Tuition	47,546	-	47,546
Other	22,485	58,775	81,260
State sources	773,593	-	773,593
Federal sources	107,130	-	107,130
Total revenues	1,482,112	113,523	1,595,635
Expenditures:			
Current:			
Instruction:			
Regular instruction	765,259	6,879	772,138
Special instruction	208,467	-	208,467
Other instruction	109,588	53,182	162,770
	1,083,314	60,061	1,143,375
Support services:			
Student services	9,629	86	9,715
Instructional staff services	33,523	228	33,751
Administration services	276,373	2,154	278,527
Operation and maintenance of plant services	102,658	57,071	159,729
Transportation services	34,210	4,090	38,300
	456,393	63,629	520,022
Non-instructional programs	2,467	304	2,771
Other expenditures:			
Long-term debt:			
Principal	-	15,843	15,843
Interest and fiscal charges	-	2,865	2,865
AEA flowthrough	58,119	-	58,119
	58,119	18,708	76,827
Total expenditures	1,600,293	142,702	1,742,995
Excess (deficiency) of revenues over (under) expenditures	(118,181)	(29,179)	(147,360)
Other financing sources (uses):			
Operating transfers in	-	18,708	18,708
Operating transfers out	-	(18,708)	(18,708)
Total other financing sources (uses)	-	-	-
Net change in fund balances	(118,181)	(29,179)	(147,360)
Fund balances beginning of year	2,966	76,629	79,595
Fund balances end of year	\$ (115,215)	47,450	(67,765)

See notes to financial statements.

Russell Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2004

**Net change in fund balances - total governmental funds (page 23)** **\$ (147,360)**

***Amounts reported for governmental activities in the  
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures were less than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ -	
Depreciation expense	<u>(26,585)</u>	(26,585)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues were less than repayments, as follows:

Issued	-	
Repaid	<u>15,843</u>	15,843

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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**Change in net assets of governmental activities (page 20)** **\$ (157,917)**

See notes to financial statements.



Russell Community School District

Exhibit G

Statement of Net Assets  
Proprietary Fund

June 30, 2004

**Assets**

Cash and cash equivalents	\$ 27,334
Inventories	2,628
Capital assets, net of accumulated depreciation	5,098
<b>Total assets</b>	<b>35,060</b>

**Liabilities**

Accounts payable	2,055
Due to other funds	122
<b>Total liabilities</b>	<b>2,177</b>

**Net Assets**

Invested in capital assets, net of related debt	5,098
Unrestricted	27,785
<b>Total net assets</b>	<b>\$ 32,883</b>

See notes to financial statements.

Russell Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Fund

Year ended June 30, 2004

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 23,172</u>
Operating expenses:	
Non-instructional programs:	
Food service programs:	
Salaries	26,022
Benefits	4,697
Purchased services	6,565
Supplies	28,713
Depreciation	708
Total operating expenses	<u>66,705</u>
Operating loss	<u>(43,533)</u>
Non-operating revenues:	
State sources	983
Federal sources	40,436
Interest income	21
Total non-operating revenues	<u>41,440</u>
Change in net assets	(2,093)
Net assets beginning of year	<u>34,976</u>
Net assets end of year	<u><u>\$ 32,883</u></u>

See notes to financial statements.

Russell Community School District

Exhibit I

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2004

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 23,172
Cash payments to employees for services	(26,022)
Cash payments to suppliers for goods and services	(36,232)
Net cash used by operating activities	<u>(39,082)</u>
Cash flows from non-capital financing activities:	
State grants received	983
Federal grants received	36,612
Net cash provided by non-capital financing activities	<u>37,595</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(570)</u>
Cash flows from investing activities:	
Interest income	<u>21</u>
Net (decrease) in cash and cash equivalents	(2,036)
Cash and cash equivalents at beginning of year	29,370
Cash and cash equivalents at end of year	<u>\$ 27,334</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (43,533)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	3,824
Depreciation	708
(Increase) in inventories	(514)
(Decrease) in due to other funds	(1,622)
Increase in accounts payable	2,055
Net cash used by operating activities	<u>\$ (39,082)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2004, the District received federal commodities valued at \$3,824.

See notes to financial statements.

# Russell Community School District

## Notes to Financial Statements

June 30, 2004

### (1) Summary of Significant Accounting Policies

Russell Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Russell, Iowa, and the predominate agricultural territory of Lucas, Monroe, and Wayne Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, Russell Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Russell Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lucas, Monroe, and Wayne County Assessor's Conference Board.

#### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate vacation time; however, the unused amounts are not paid at termination, death or retirement. Consequently, no accrual is made in the financial statements for compensated absences.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the instruction and support services functional areas exceeded the amounts budgeted and the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) **Due From and Due to Other Funds**

The details of interfund receivables and payables at June 30, 2004 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Management Levy	\$ 1,627
	Physical Plant and Equipment Levy	1,578
	Enterprise:	
	School Nutrition	122
Special Revenue:		
Physical Plant and Equipment Levy	General	2,475
Capital Projects:		
Local Option Sales Tax	General	85
		<u>\$ 5,887</u>



(4) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service:	Special Revenue:	
Loan and Lease	Physical Plant and Equipment Levy	<u>\$ 18,708</u>
Total		<u>\$ 18,708</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP).

ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 94,042	625	153,000	1,271
2004-05A	6/30/04	6/30/05	202,089	-	201,000	-
Total			<u>\$ 296,131</u>	<u>625</u>	<u>354,000</u>	<u>1,271</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ -	110,000	110,000	-
2003-04B	-	60,000	-	60,000
Total	<u>\$ -</u>	<u>170,000</u>	<u>110,000</u>	<u>60,000</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	2.603%
2003-04B	2.000%	1.392%
2004-05A	3.000%	2.463%

# **(6) Capital Assets**

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 13)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 38,000	-	-	38,000
Total capital assets not being depreciated	38,000	-	-	38,000
Capital assets being depreciated:				
Buildings	285,834	-	-	285,834
Improvements other than buildings	161,553	-	-	161,553
Furniture and equipment	162,515	-	-	162,515
Total capital assets being depreciated	609,902	-	-	609,902
Less accumulated depreciation for:				
Buildings	198,191	4,295	-	202,486
Improvements other than buildings	97,710	4,070	-	101,780
Furniture and equipment	74,514	18,220	-	92,734
Total accumulated depreciation	370,415	26,585	-	397,000
Total capital assets being depreciated, net	239,487	(26,585)	-	212,902
Governmental activities capital assets, net	\$ 277,487	(26,585)	-	250,902
<b>Business type activities:</b>				
Furniture and equipment	\$ 34,208	570	-	34,778
Less accumulated depreciation	28,972	708	-	29,680
Business type activities capital assets, net	\$ 5,236	(138)	-	5,098

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Administration	\$ 518
Operation and maintenance of plant	1,398
Transportation	17,705
	<u>19,621</u>

Unallocated	<u>6,964</u>
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Total depreciation expense - governmental activities	<u>\$ 26,585</u>
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Business type activities:

Food service operations	<u>\$ 708</u>
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**(7) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital loan notes	\$ 22,189	-	9,997	12,192	12,192
Capitalized lease obligations	41,406	-	5,846	35,560	35,560
Total	<u>\$ 63,595</u>	<u>-</u>	<u>15,843</u>	<u>47,752</u>	<u>47,752</u>

Capital Loan Notes

The District borrowed \$45,000 to finance the purchase of a school bus. The Notes are payable semiannually including interest at 6.35% from the voted physical plant and equipment levy. The first payment was due on May 1, 2001. Future payments required are as follows:

Year Ending June 30	Principal	Interest	Total
2005	<u>\$ 12,192</u>	<u>516</u>	<u>12,708</u>

Capitalized Lease Obligation

The District has entered into a capital lease for the purchase of a bus. The bus has been capitalized at cost.

Future minimum lease payments for the capital lease commitment is as follows:

Year Ended- June 30	Amount
2005	<u>\$37,470</u>
Total	37,470
Less amount attributable to interest	<u>1,910</u>
Present value of minimum lease payments	<u>\$35,560</u>

The interest rate on the capitalized lease is 3.92%, and is imputed based on the lessor's implicit rate of return.

**(8) Operating Lease Agreements**

The District is leasing two copy machines for 60 months at \$689 per month. Future required payments are:

<u>Year Ended June 30,</u>	<u>Amount</u>
2005	\$ 8,963
2006	8,273
2007	8,273
2008	3,566
Total	<u>\$ 29,075</u>

Total rent expense during the fiscal year on these agreements was \$6,894.

**(9) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$49,521, \$49,121, and \$43,673 respectively, equal to the required contributions for each year.

**(10) Risk Management**

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (the Association) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to the Association funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004, were \$119,318.

Payments from participating members are the sole source for paying claims and establishing reserves for ISEBA self-funded programs. Stop loss insurance is purchased by the Association to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. The Association will pay claims incurred before the termination date.

Russell Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$58,119 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(12) Deficit Fund Balance**

The General Fund had an unreserved, undesignated deficit balance of \$115,215 at June 30, 2004. The Special Revenue - Management Levy Fund had an unreserved, undesignated deficit balance of \$7,707 at June 30, 2004.

**(13) Accounting Change and Restatements**

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		Total
	General	Nonmajor Special Revenue	
Net assets June 30, 2003.	<u>\$ 2,966</u>	<u>76,629</u>	79,595
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$370,415			277,487
Long-term Liabilities:			
Loan and lease			(63,595)
Accrued interest payable			(1,043)
Deferred revenue			<u>46,623</u>
Net assets July 1, 2003, as restated			<u>\$ 339,067</u>

### Required Supplementary Information

Russell Community School District

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Local sources	\$ 729,586	23,193
Intermediate sources	-	-
State sources	773,593	983
Federal sources	78,911	36,612
Total receipts	1,582,090	60,788
Disbursements:		
Instruction	1,166,583	-
Support services	553,827	-
Non-instructional programs	304	62,824
Other expenditures	58,119	-
Total disbursements	1,778,833	62,824
Deficiency of receipts under disbursements	(196,743)	(2,036)
Other financing sources, net	60,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(136,743)	(2,036)
Balances beginning of year	209,210	29,370
Balances end of year	\$ 72,467	27,334

See accompanying independent auditor's report.



Total Actual	Budgeted Amounts Original	Original to Actual Variance
752,779	753,950	(1,171)
-	23,000	(23,000)
774,576	896,960	(122,384)
115,523	97,000	18,523
1,642,878	1,770,910	(128,032)
1,166,583	1,124,521	(42,062)
553,827	508,687	(45,140)
63,128	70,630	7,502
58,119	102,295	44,176
1,841,657	1,806,133	(35,524)
(198,779)	(35,223)	(163,556)
60,000	-	60,000
(138,779)	(35,223)	(103,556)
238,580	222,290	16,290
99,801	187,067	(87,266)

Russell Community School District

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 1,582,090	13,545	1,595,635
Expenditures	1,778,833	(35,838)	1,742,995
Net	(196,743)	49,383	(147,360)
Other financing sources, net	60,000	(60,000)	-
Beginning fund balances	209,210	(129,615)	79,595
Ending fund balances	<u>\$ 72,467</u>	<u>(140,232)</u>	<u>(67,765)</u>

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 60,788	3,824	64,612
Expenses	62,824	3,881	66,705
Net	(2,036)	(57)	(2,093)
Beginning net assets	29,370	5,606	34,976
Ending net assets	<u>\$ 27,334</u>	<u>5,549</u>	<u>32,883</u>

See accompanying independent auditor's report.

Russell Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the instruction and support services functions exceeded the amounts budgeted and the District exceeded its General Fund unspent authorized budget.

### Other Supplementary Information

## Russell Community School District

## Schedule 1

Combining Balance Sheet  
Nonmajor Funds

June 30, 2004

	Special Revenue			Capital Projects	Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Local Option Sales Tax	
<b>Assets</b>					
Cash and pooled investments	\$ -	26,953	24,648	295	51,896
Receivables:					
Property tax:					
Delinquent	416	-	409	-	825
Succeeding year	42,195	-	17,421	-	59,616
Accounts	-	1,783	-	-	1,783
Due from other funds	-	-	2,475	85	2,560
Due from other governments	-	-	11,656	87	11,743
<b>Total assets</b>	<b>\$ 42,611</b>	<b>28,736</b>	<b>56,609</b>	<b>467</b>	<b>128,423</b>
<b>Liabilities and Fund Equity</b>					
Liabilities:					
Excess of warrants issued over bank balance	\$ 6,496	-	-	-	6,496
Due to other funds	1,627	-	1,578	-	3,205
Deferred revenue:					
Succeeding year property tax	42,195	-	17,421	-	59,616
Other	-	-	11,656	-	11,656
<b>Total liabilities</b>	<b>50,318</b>	<b>-</b>	<b>30,655</b>	<b>-</b>	<b>80,973</b>
Fund equity:					
Unreserved fund balances	(7,707)	28,736	25,954	467	47,450
<b>Total liabilities and fund equity</b>	<b>\$ 42,611</b>	<b>28,736</b>	<b>56,609</b>	<b>467</b>	<b>128,423</b>

See accompanying independent auditor's report.

## Russell Community School District

## Schedule 2

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Funds

Year ended June 30, 2004

	Special Revenue			Debt Service	Capital Projects	
	Management	Student	Physical Plant and	Loan	Local Option	
	Levy	Activity	Equipment Levy	and Lease	Sales Tax	Total
Revenues:						
Local sources:						
Local tax	\$ 21,614	-	32,667	-	467	54,748
Other	-	57,137	1,638	-	-	58,775
Total revenues	21,614	57,137	34,305	-	467	113,523
Expenditures:						
Current:						
Instruction:						
Regular instruction	6,879	-	-	-	-	6,879
Other instruction	-	53,182	-	-	-	53,182
Support services:						
Student services	86	-	-	-	-	86
Instructional staff services	228	-	-	-	-	228
Administration services	2,154	-	-	-	-	2,154
Operation and maintenance of plant services	18,604	-	38,467	-	-	57,071
Transportation services	4,090	-	-	-	-	4,090
Non-instructional programs:						
Food service operations	304	-	-	-	-	304
Other expenditures:						
Long-term debt:						
Principal	-	-	-	15,843	-	15,843
Interest charges	-	-	-	2,865	-	2,865
Total expenditures	32,345	53,182	38,467	18,708	-	142,702
Excess (deficiency) of revenues over (under) expenditures	(10,731)	3,955	(4,162)	(18,708)	467	(29,179)
Other financing sources (uses):						
Operating transfers in	-	-	-	18,708	-	18,708
Operating transfers out	-	-	(18,708)	-	-	(18,708)
Total other financing sources (uses)	-	-	(18,708)	18,708	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(10,731)	3,955	(22,870)	-	467	(29,179)
Fund balances beginning of year	3,024	24,781	48,824	-	-	76,629
Fund balances end of year	\$ (7,707)	28,736	25,954	-	467	47,450

See accompanying independent auditor's report.

Russell Community School District

Schedule 3

Schedule of Changes  
in Special Revenue Fund,  
Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Foreign Language	\$ 1,312	-	-	1,312
All School Sports	703	17,158	16,073	1,788
Prom Gifts	747	1,917	1,867	797
Drama	868	-	-	868
Annual	1,054	2,644	2,563	1,135
Music	1,012	-	-	1,012
Drill Team	677	1,159	1,444	392
Cheerleaders	22	521	542	1
Concessions	1,704	5,682	5,683	1,703
Pop Machine	7,921	9,683	8,487	9,117
Student Activities	1,397	1,952	1,585	1,764
FFA	2,600	-	-	2,600
FCCLA	212	-	-	212
Beta	24	-	-	24
Class of 2010	-	10	-	10
Class of 2009	5	10	-	15
Class of 2008	23	253	-	276
Class of 2007	32	159	-	191
Class of 2006	365	738	55	1,048
Class of 2005	1,261	2,972	2,320	1,913
Class of 2004	1,816	5,757	7,573	-
Student Council	1,026	323	414	935
Pre-school/H.S.	-	5,238	4,576	662
Q.S.P.	-	961	-	961
Total	<u>\$ 24,781</u>	<u>57,137</u>	<u>53,182</u>	<u>28,736</u>

See accompanying independent auditor's report.

Russell Community School District

Schedule 4

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Local sources:		
Local tax	\$ 586,106	554,080
Tuition	47,546	79,995
Other	81,260	99,227
State sources	773,593	988,438
Federal sources	107,130	112,411
Total	<u>\$ 1,595,635</u>	<u>1,834,151</u>
Expenditures:		
Instruction:		
Regular instruction	\$ 772,138	878,210
Special instruction	208,467	157,733
Other instruction	162,770	192,472
Support services:		
Student services	9,715	2,658
Instructional staff services	33,751	21,264
Administration services	278,527	263,173
Operation and maintenance of plant services	159,729	133,497
Transportation services	38,300	116,460
Non-instructional programs	2,771	93
Other expenditures:		
Long-term debt:		
Principal	15,843	17,586
Interest and other charges	2,865	1,883
AEA flowthrough	58,119	62,990
Total	<u>\$ 1,742,995</u>	<u>1,848,019</u>

See accompanying independent auditor's report.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of the  
Russell Community School District

We have audited the financial statements of the Russell Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Russell Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-G-04, II-K-04, II-L-04, II-M-04, and II-N-04 in the accompanying Schedule of Findings.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Russell Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Russell Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-04 and I-B-04 are material weaknesses. Prior year reportable conditions have been partially resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Russell Community School District and other parties to whom Russell Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Russell Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP  
Certified Public Accountants

August 13, 2004

RUSSELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS  
Year ended June 30, 2004

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

I-A-04      Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one employee processes the invoices, prepares the checks, posts accounting records, and signs the checks.

Recommendation - We realize that it is difficult to segregate duties with a limited number of office employees. However, the District should continue to review its operating procedures to obtain maximum control possible under the circumstances.

Response - We will continue to investigate alternatives; however, due to the small size of our District segregation of duties is difficult.

Conclusion - Response accepted.

I-B-04      Bank Reconciliations - The District performs bank reconciliations for all bank accounts. However, we identified some transactions which were either not recorded or were incorrectly recorded on the computerized general ledger. Since the reconciled bank balance is not compared to the book balance as recorded on the computerized general ledger, these differences were not detected by the District.

Recommendation - The District should reconcile, on a monthly basis, the bank balance to the book balance as recorded on the computerized general ledger, and any differences should be investigated in a timely manner.

Response - We will review this situation and take appropriate action as necessary.

Conclusion - Response accepted.

RUSSELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS  
Year ended June 30, 2004

**Part II: Other Findings Related to Statutory Reporting:**

II-A-04      Official Depositories - Official depositories have been approved by the District. However, at times during the year, the bank balance exceeded the deposit resolution amount. Also, the deposit resolution referred to an incorrect bank name.

Recommendation – The District implement procedures to ensure compliance with Chapter 12 C.2 of the Code of Iowa.

Response – We have implemented this recommendation.

Conclusion – Response accepted.

II-B-04      Certified Budget - Disbursements for the year ended June 30, 2004 exceeded the amended certified budget amounts in the instruction and support services functions. The District also exceeded its unspent authorized budget for the year ended June 30, 2004.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget. The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded. We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

Conclusion – Response accepted.

II-C-04      Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-D-04      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04      Business Transactions – No business transactions between the District and District officials or employees were noted.

II-F-04      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

RUSSELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

II-G-04     Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted. For closed sessions, reference to a specific exemption of Chapter 21.5 was not documented. The District's annual salary publication was not published as required by Chapter 279.35 of the Code of Iowa.

Recommendation – The District implement procedures to ensure compliance with Chapter 21 of the Code of Iowa regarding closed sessions and Chapter 279.35 of the Code of Iowa regarding publications.

Response – We will implement these recommendations.

Conclusion – Response accepted.

II-H-04     Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2003 was overstated by 2 students. In addition, the number of students reported on line 8 of this form was overstated by 3 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

II-I-04     Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policies were noted, except as noted at II-A-04.

II-J-04     Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-04     Payroll - In some cases, the District was unable to locate authorization for payroll deductions. I-9's were also not available or were incomplete on some employees. Leave hours taken by an employee were not recorded on the leave records; consequently, the employee used more leave hours than allowed. An individual was paid a salary based on BA36, but the District had no support for the 36 hours.

Recommendation – The District should implement procedures to ensure authorization is obtained for all payroll deductions, and that I-9's are complete for all applicable employees. All leave hours should be recorded by the District, and all employees should be paid the correct amount based on their education.

Response - We will make changes as necessary.

Conclusion - Response accepted.

RUSSELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

II-L-04      Financial Condition – The General Fund and Special Revenue - Management Levy Funds had unreserved, undesignated deficit fund balances of \$115,215 and \$7,707 at June 30, 2004, respectively.

Recommendation - The District should continue to monitor the General Fund and the Special Revenue - Management Levy Fund and investigate alternatives to eliminate the deficits.

Response - We will continue to monitor the General Fund and Special Revenue - Management Levy Fund. Procedures have been implemented to increase revenues and decrease expenditures.

Conclusion - Response accepted.

II-M-04      Disbursements – Disbursements were not always supported by adequate documentation. Some pages of the invoices were not canceled when paid. Some checks were issued with only one signature on the check.

For invoices paid prior to the board meeting, the District's board policy requires approval by the Board President prior to payment. However, we noted that this approval is not performed.

Recommendation – Invoices should be obtained before payment of the claims. All invoices should be marked "paid" once payment is made, and all checks should be signed by two individuals prior to issuance. In addition, the Board President should approve all bills paid prior to the Board meeting, and this approval should be documented.

Response – We will review these areas and take action as necessary.

Conclusion – Response accepted.

II-N-04      Transfers – As of June 30, 2004, various transfers are required to be made as documented in note 3 of the notes to financial statements.

Recommendation – The District make the transfers as noted.

Response – We will implement the recommendation.

Conclusion – Response accepted.